**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268**

Postal Rate and Fee Changes, 1997)	
)	**Docket No. R97-1**

SECOND SET OF INTERROGATORIES OF THE ADVERTISING MAIL MARKETING ASSOCIATION TO NAA WITNESS CHOWN (AMMA/NAA-T-1-4-8)

Pursuant to Sections 25 and 26 of the Commission's Rules of Practice, the Advertising Mail Marketing Association hereby propounds the attached interrogatories and requests for the production of documents. The instructions contained in our interrogatories to you are incorporated by reference.

If you are unable to provide any of the requested documents or information as to any of the interrogatories, please provide an explanation for each instance in which documents or information cannot be or have not been provided. If the witness to whom this request is directed cannot respond, but another witness can, please redirect the request to that witness.

Respectfully submitted,

Ian D. Volner
N. Frank Wiggins
Counsel to Advertising Mail Marketing
  Association

The following is a general statement of the system of cost functions, classes (or products), volume variable costs, and institutional costs discussed in NAA-T-1:

I_j = Institutional costs that are "identifiable" with cost function j

$I. = \sum_{j=1}^{m} I_j$ = The total of all "identifiable" institutional costs

V_{ij} = The total volume variable costs in cost function j that have been shown to vary with a change in volume of subclass i

$V._{j} = \sum_{i=1}^{n} V_{ij}$ = The total of all volume variable costs for all classes served by cost function j

$V.. = \sum_{j=1}^{m} V._{j}$ = Total volume variable cost in the system

j = Name (index) of the cost function (j = 1, 2,...,m)

m = The total number of cost functions

i = Name (index) of the subclass (i = 1, 2...,n)

n = The total number of subclasses

a.   Please confirm that your R90-1 Method with equal markup for the recovery of "identifiable" institutional costs at the cost function level distribute a markup of the volume variable cost of the   ith   subclass and the   jth   cost function equal to:

$$I_j * \frac{V_{ij}}{V._{j}}$$ (equation a)

If you cannot confirm, please explain and provide the correct expression for equation a.

b.   Please confirm that the total of these distributed "identifiable" institutional costs for all cost functions used by the   ith   subclass is equal to:

$$\sum_{j=1}^{m} [I_j * V_{ij} / V._j]$$ (equation b)

If you cannot confirm, please explain and provide the correct expression for equation b.

c.   Please confirm the weighting factor proposed in R97-1 for the   jth   cost function is equal to:

$$\frac{I_j}{V._j} * \frac{V..}{I.}$$ (equation c)

If you cannot confirm, please explain and provide the correct expression for equation c.

d.   Please confirm that the R97-1 weighting factor that you propose for the   jth   cost function, when used to weight the volume variable cost of the   ith   subclass, is equal to:

$$\frac{I_j * V_{ij}}{V._j} * \frac{V..}{I.}$$ (equation d)

If you cannot confirm, please explain and provide the correct expression for equation d.

e.   Please confirm that the total of the R97-1 weighted volume variable costs for the   ith   class is equal to:

$$(\frac{V..}{I.}) * \sum_{j=1}^{m} [I_j * V_{ij} / V._j]$$ (equation e)

If you cannot confirm, please explain and provide the correct expression for equation e.

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AMMA/NAA-T-1-5   In response to our interrogatory AMMA/NAA-T-1-2 you state, in part, "First, I do not understand how subclass mail can "consume" institutional costs."

a.   Do you believe that a subclass of mail can cause the Postal Service to incur institutional costs?

b.   If your answer to part (a) is affirmative, do you contend that the "metric" advocated in your testimony reflects this cost-causative phenomenon and, if so, how?

c.   How do you define the terms "cause" and "cost-causation" as you have interpreted them in framing your answers to parts (a) and (b) above?

AMMA/NAA-T-1-6   Professor Panzer, in his testimony for the Postal Service, states:

Applying mark-ups to average incremental costs instead of to marginal (unit volume variable) costs reduces economic efficiency unnecessarily. This is because, as explained above, the efficient pursuit of any objective subject to a break-even constraint requires that one trade-off costs and benefits at the margin. Marginal costs provide relevant information for conducting this trade-off, while average incremental costs do not.

Direct Testimony of John C. Panzer on behalf of the United States Postal Service, Docket No. R97-1, USPS-T11 at 28 ll. 14-19.

a.   Do you agree with this statement?

b.   If you do agree with the statement, how do you justify using weighted attributable costs instead of volume variable costs to determine contribution to institutional costs?

c.   If your answer to part (a) is negative, please provide arguments from economic literature and/or regulatory proceedings to support your reasons(s) for disagreement, including specific citations to published materials.

AMMA/NAA-T-1-7   You say that "weighting the attributable costs to reflect the relative mix of services used by each subclass . . . will provide the Commission with a better basis for evaluating the assignment of the institutional costs." Response to AMMA/NAA-T1-2.

a.   Does the word "weighting" in this recitation refer to anything other than the factors set out on line 39 of your Exhibit NAA-1D and, if so, what?

b.   If your answer to part (a) is in the affirmative, why does the percentage of institutional costs divided by the percentage of attributable costs for what you define as USPS functions (Exhibit NAA-1C line 5) improve the Commission's power to apply the statutory cost assignment criteria correctly?

c.   Would an index created by dividing the percentage of attributable costs of each function by the percentage of institutional costs of that function equally serve the Commission's interest and, if not, why not?

AMMA/NAA-T-1-8   If your "Better Metric" is adopted, will sortation and destination entry discounts be impacted? If your answer is affirmative, please provide a detailed explanation of the impacts and give separate examples of impacts on sortation discounts and destination entry discounts.

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

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N. Frank Wiggins

DATE: January 28, 1998

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